Retail
Quarterly Bulletin

Q1 2017

Shopping Centres

Indicative Prime Yields (NIY)

25/03/2017	3 Months Ago	1 Year Ago
4.50%	4.50%	4.25%

- Following the relative flurry of deals in Q4 2016, Q1 activity has once again stalled with only six centres transacting, totalling £438m, all of which were marketed well back in 2016.
- However, within the last few weeks we have seen the first signs of potential new sales activity, with centres being brought to market in Barnsley, Hemel Hempstead, Dunfermline, King's Lynn, Loughborough and Scarborough.
- With continuing market uncertainty and an apparent disconnect between vendors and buyers pricing expectations, these sales will be an interesting test of the market.
- Stakes in Bluewater (7.5%) and Intu, Norwich (50%) have also been brought to the market in Q1, whilst a 50% interest in Southside, Wandsworth remains under offer.
- The landmark deal of the quarter, both in terms of price and yield, was the acquisition by Frogmore of Stratford Shopping, Stratford.

Stratford Shopping, Stratford

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
	Arndale Shopping Centre, Eastbourne (50%)	£100,000,000	5.75%	Overseas Investor	Legal & General
Feb-17	Stratford Shopping, Stratford	£141,500,000	4.95%	Frogmore	Blackstone / Catalyst
Feb-17	Buttermarket, Ipswich	£54,700,000	5.90%	National Grid PF (DTZ IM)	Capital & Regional / Drum Property Group
Mar-17	The Exchange, Ilford	£78,000,000	6.70%	Capital & Regional	Meyer Bergman

High Street

Indicative Prime Yields (NIY) - Provincial

25/03/2017	3 Months Ago	1 Year Ago
4.00%	4.00%	4.00%

- The High Street market continues to demonstrate strong investor appetite for well let assets with secure income streams and reversionary prospects. Recent sales have shown that the prime end of the market is not exclusively dominated by private investors.
- However, private investors with the desire to deploy capital in a low interest rate environment are continuing to drive pricing for prime assets of below £5m, some with competitive bidding to sub 4% net initial yields.
- Following more positive Christmas trading performance, Q1 has seen an increase in the number of department store investments brought to market. Although offering more generous income returns for long leases, sometimes with fixed or index linked increases, some are over rented by quantum of area and questions remain over covenant strength, so pricing of assets is key.

25/25a High Street & 4-8 Market Street, Winchester

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Feb-17	WH Smith, Chichester	£3,820,000	4.00%	Private Investor	Savills IM
	65-79 Clapham High Street, Clapham	£7,900,000	4.60%	Metro Bank	Private Investor
Mar-17	25/25a High Street & 4-8 Market Street, Winchester	£7,725,000	4.30%	Wesleyan Assurance	CBRE GI

Market Focus

STRUTT & PARKER

Retail Warehousing

Indicative Prime Yields (NIY)

	25/03/2017	3 Months Ago	1 Year Ago
Open A1	5.00%	5.00%	4.50%
Bulky Goods	5.75%	5.75%	5.75%

- Q1 transaction volumes reached approximately £450m representing an increase of almost 50% against the same period in 2016, although many of the deals that completed were carried over from last year.
- A significant proportion of this quarters transaction volumes was accounted for by Brockton Capital's sale of a portfolio of nine regional assets to Tristan Capital for £245m, at a 7.5% net initial yield secured against a WAULT of 8 years.
- The retail funds have been largely absent from the market, albeit there are recent signs that cash flows are turning positive and appetite returning.
- The main restriction on liquidity is a pronounced lack of stock, with instances of investments coming to market and failing to sell a rarity.

The Oaks Retail Park, Harlow

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
STRUTT & PARKER	Lady Bay Retail Park, Nottingham	£24,200,000	6.30%	Mayfair Capital	Threadneedle Property
Mar-17	Project Keirin Portfolio	£245,000,000	7.50%	Tristan Capital	Brockton Capital
Mar-17	Christchurch Retail Park, Christchurch	£34,500,000	5.65%	Orchard Street IM	London Metric
Mar-17	The Oaks Retail Park, Harlow	£31,100,000	6.30%	Credit Suisse	Aviva Investors
Mar-17	Wren Retail Park, Torquay	£21,000,000	6.15%	Torbay Council	Aviva Investors

Foodstores

Indicative Prime Yields (NIY)

25/03/2017	3 Months Ago	1 Year Ago
4.75%	4.75%	4.75%

- Whilst there have been limited transactions for the quarter, there has been recent encouragement from the sector with improved trading figures and clear indications that operators are gaining momentum.
- Demonstrable appetite exists from the institutions for prime assets and there is also considerable demand for more secondary stock from foreign investors who are capitalising on generous yields, weak sterling and cheap leverage.
- The main issue facing the market remains the disconnect between rental values and rent passing becoming more pronounced on the back of index linked and fixed rental increases.
- Lack of stock remains acute with the acquisition by Legal & General of a portfolio of six foodstores (together with a department store and retail warehouse) being the only significant transaction to complete in Q1. However, we understand there are currently deals under offer, struck at net initial yields of around 4.25% for 25 years index linked income to the "Big 4" operators.

Waitrose, Lichfield (Project Alexis)

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Mar-17	Project Alexis Portfolio	£62,300,000	5.45%	Legal & General	Private UK Family Trust

Consumer Confidence & Retail Sales

- UK consumer confidence showed a positive start to the year with an improvement to the index of two points in January (to -5). However, against the backdrop of rising food / fuel prices and general concern over personal finances for the year ahead, this fell back marginally in February (to -6).
- Having somewhat held back spending in December and January, shoppers returned to the high streets in February, which saw retail sales rise 3.7% compared to February 2016. Although these figures were not enough to prevent retail sales recording the largest quarterly fall in nearly 7 years, the improved sales seen in February appear to have carried over into March, with retailers anticipating similar sales growth as February.

Footfall

- Total shopper numbers declined in February, when there was a steeper drop than normal at retail parks.
- Overall, footfall fell by 1.0% year-on-year in the four weeks to 25th February according to BRC-Springboard. This represented a sharper decline than the three-month figure, where a decrease of 0.8% was registered year-on-year, although this was a marginal improvement on the average annual fall over the past 12 months of 1.1%.
- Shopping centres were the worst performer, with footfall down 2.6% in February. Footfall in retail parks locations fell by 1.6%, in contrast to the 2.5% jump seen in the same period last year.
- On the High Street, footfall edged up 0.1% last month, compared with last year's fall of 2.9%.

Out of Town Retailers are coming In Town

- Big-space retailers are heading into town centres and occupying smaller units, with operators such as B&Q, IKEA, Decathlon and DFS all coming up with mini-formats that keep the brand essence, without offering as extensive a range of stock.
- Arcadia look to be rolling out more town centre multiple fascias in a single store, whilst the Dixons 'three-in-one' formula brings together Carphone Warehouse, Currys and PC World.
- TJ Hughes is rumoured to be taking up to 10 of the former BHS stores across the country. Amongst others looking at the former BHS space, retailers include:
- Lidl – taking 18,000 sq ft in The Mall, Walthamstow
- Aldi – taking 20,000 sq ft in Cameron Toll, Edinburgh
- The Range – taking 46,000 sq ft in Kingfisher Shopping Centre, Redditch

Administrations and Expansions

- It comes as little surprise that we have seen a number of administrations in Q1 of 2017. Footwear has taken a hit, with Moda in Pelle and Jones Bootmaker subsequently rescued through pre-pack deals, although Brantano has failed to find a buyer. Other retailers that have gone into administration (some not for the first time) include Store 21, Blue Inc and 99p Stores.
- More recently the restaurant group, Viva Brasil fell into administration after an unsuccessful expansion, with the business being sold as part of a pre-pack deal to its founder, keeping its restaurants open in Birmingham, Cardiff, Glasgow and Liverpool.
- The retail and leisure sector suffered an overall net loss of 1,650 shops in the 12 months to December 2016, which roughly equates to 5 closures a day (source: LCD).
- The number of fashion stores on high streets and in shopping centres fell by 3% during this period. In Greater London the annual decline was 2%, but the fall was up to 5% in some regions of the UK. Fashion stores on retail parks fell by 1% year on year.
- Again, footwear retailers have been badly hit, with the number of shops declining by 5% in the last 12 months.
- However, it has not been all doom and gloom on the high street. Generally, the better retailers remain acquisitive both in and out of town.
- Rental growth, particularly off re-based rents, in the better locations is becoming more common.
- London topped the global rankings for new luxury retail store openings in 2016. London saw a total of 41 new luxury openings during the year, compared to 36 in Paris and 31 in both New York and Dubai.

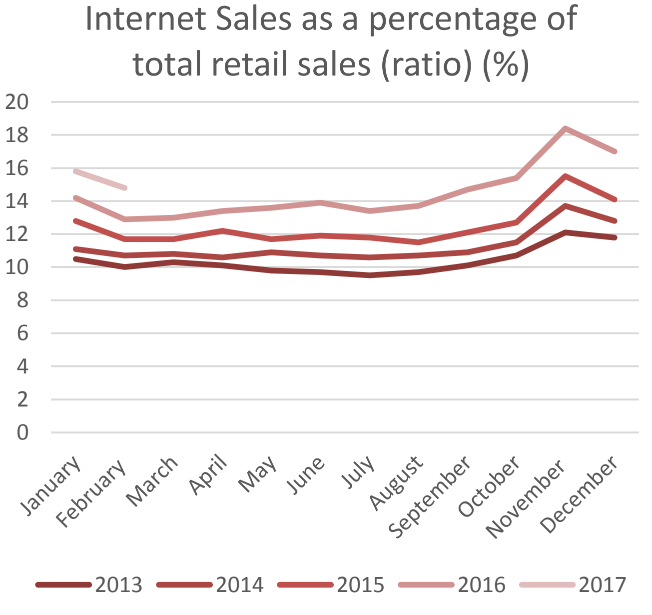
STRUTT & PARKER

A3 - Restaurants & Cafés

- Following some years of significant growth in the A3 sector, a number of national occupiers are scaling back their acquisition programmes for 2017 and maybe 2018. Some occupiers are actively disposing of space, whilst others are not fitting out / opening units when they are handed over at PC.
- Operators are reporting pressure on operating costs and therefore margins. This has led them to be far more selective about the opportunities they pursue and are undertaking more due diligence before committing, looking closer at demographics, trading patterns, competition and capacity.
- This scaling back in demand has led to rental levels coming under pressure, especially in the £40-£60 psf bracket in the more regional locations.

Online vs High Street

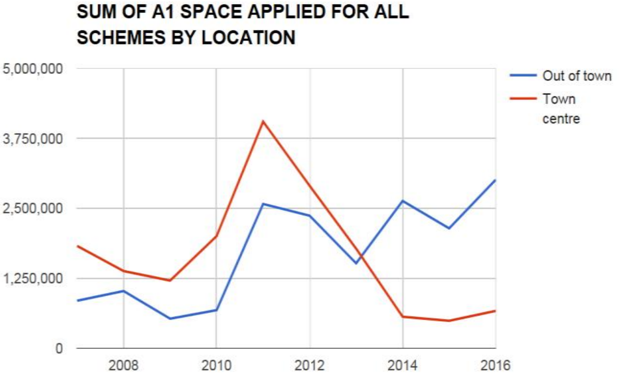
- Shopping online still remains a growing trend, as shown in the graph below, with the magnitude of growth seemingly increasing year on year. However, despite the competition, online has not brought about the death of the high street as many predicted. Many retail destinations are benefitting from online, both through click-and-collect and the opening of new stores by retailers. More than half of John Lewis's sales are fulfilled by click-and-collect (source: CACI).



Source: ONS

Development

- The opening of new schemes in Bracknell and Oxford later this year effectively marks the end of the current round of major new in town developments currently on site, with the exception of St James, Edinburgh which has a 2020 scheduled opening.
- A number of further large schemes are proposed going forward, such as Westfield Croydon, Brent Cross, Chester, Coventry and Sheffield. Of these, those outside of Greater London tend to be heavily reliant on local authority financial input to ensure viability.
- Extensions and reconfigurations to existing shopping locations, however, are becoming more common, given the viability of such when compared to new centres. Extensions in Eastbourne and Aberdeen have recently started on site and there are proposals planned for the likes of Solihull, Exeter, Peterborough and Telford.
- Not to be left behind, a number of the Regional Shopping Centres have plans to upgrade their retail and leisure offers, including Bluewater, Meadowhall and Cribbs Causeway.
- However, the real growth in retail floorspace now seems to be coming from out of town.
- Schemes currently on site in edge / out of town locations include Rushden Lakes, St James Dover and Liverpool Shopping Park.
- The graph below shows the significant rise over the last three years of planning applications submitted for out of town retail space, with a corresponding fall off seen from in town applications.



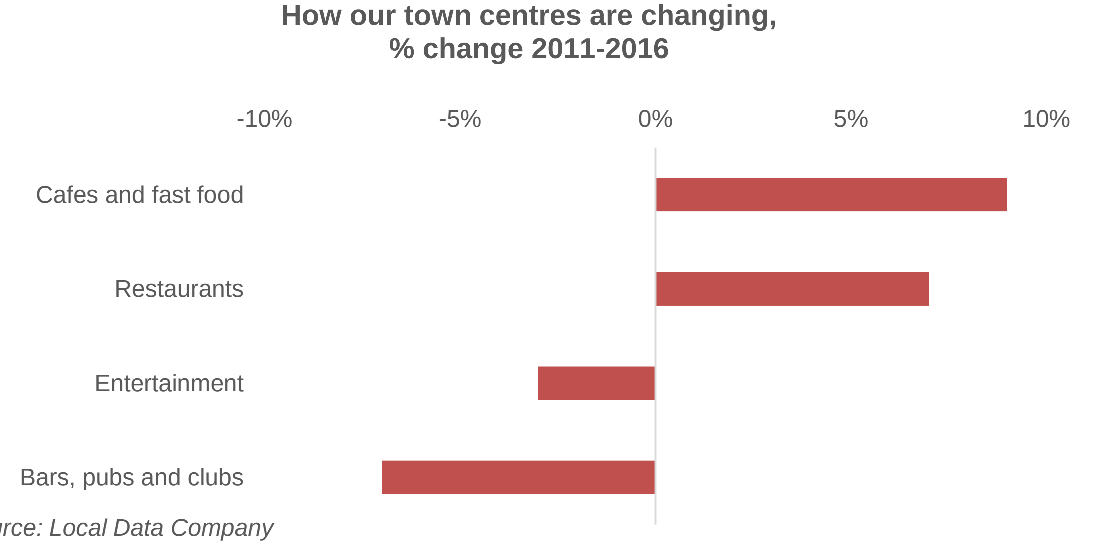
Source: EGI

Economic Overview

Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
25/03/2017	0.25%	0.34%	0.82%	0.62%
3 Months Ago	0.25%	0.37%	0.89%	0.55%
1 Year Ago	0.50%	0.59%	0.93%	0.88%

- The final estimate of GDP for the fourth quarter of 2016 confirmed growth at 0.7%, unchanged from the second estimate. The dominant service sector saw growth of 0.8%, driven by strong performance in the wholesale trade, retail trade and travel agency sectors. The production industries grew modestly, up 0.3% despite a 1.2% increase in manufacturing, whilst output in the construction and agricultural industries expanded by 0.2% and 1% respectively.
- The cheap pound is proving positive for manufactures who are claiming to be as confident as they have been in the last two decades, as they reported the biggest increase in exports in 3 years and are expecting output to grow at the fastest pace since 1995 (source: CBI).
- The latest employment statistics for the three months to January 2017 showed a rise in employment of 92,000 when compared to the three months to October 2016. Unemployment fell by 31,000 to around 1.6 million, resulting in a fall in the unemployment rate to 4.7%, whilst the number of people in part-time work because they could not find a full-time job fell by 35,000.
- Consumer price inflation increased by 2.3% in the year to February, up from 1.8% in January. According to the average of independent forecasters' views compiled by HM Treasury for March, UK CPI is expected to reach 2.9% in 2017.
- The latest data for 2016/17 suggests that at the headline level the economy has performed far stronger than expected between last years EU Referendum and the triggering of Article 50. However, issues remain. Although the latest employment figures are positive, employment is growing at a much slower rate than was seen in the first half of 2016, whilst the latest set of retail sales figures suggest consumer spending is now being impacted by the rising prices that was an inevitable impact of sterling's decline. With inflation set to trend higher later this year, retail volumes are likely to come under further pressure.
- Our chart for this quarter looks at the changing make-up of the food & beverage and leisure operators on the high street. Figures from the Local Data Company for the period 2011-2016 show a strong increase (+9%) in the number of café and fast food units, whilst the quantity of bars, pubs and clubs has declined by a not dissimilar level (-7%). However, pubs still make up 16% of our town centres' leisure operators, whilst cafés account for 13%.



Source: Local Data Company

Retail Contacts

HEAD OF RETAIL

Michael Rowlands
020 7318 5028
michael.rowlands@struttandparker.com

HEAD OF AGENCY & DEVELOPMENT

Rob Williams
020 7318 5153
rob.williams@struttandparker.com

INVESTMENT

IN TOWN

Antony Nickalls
020 7318 5071
antony.nickalls@struttandparker.com
Gavin Hendry
020 7318 5073
gavin.hendry@struttandparker.com
Hugh Thomas
020 7318 5098
hugh.thomas@struttandparker.com
Harry Smart
020 7318 4726
harry.smart@struttandparker.com

OUT OF TOWN

Andrew Hulme
020 7318 5008
andrew.hulme@struttandparker.com
Will Robertson
020 7318 5002
will.robertson@struttandparker.com
Rory Millar
020 7318 4714
rory.millar@struttandparker.com

AGENCY & DEVELOPMENT

Gavin Redrupp
020 7318 5165
gavin.redrupp@struttandparker.com
Henry Foreman
020 7318 5155
henry.foreman@struttandparker.com
Lily Harral
020 7318 5173
lily.harral@struttandparker.com
Nick Young
020 7318 5072
nick.young@struttandparker.com

PROFESSIONAL

David Garofalo
020 7318 5052
david.garofalo@struttandparker.com

HEAD OFFICE 13 HILL STREET LONDON W1J 5LQ
TEL: +44 (0)20 7629 7282
FAX: +44 (0)20 7629 0387
www.struttandparker.com